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**FISCAL IMPACT STATEMENT**

**LS 6997**  
**BILL NUMBER:** HB 1205

**NOTE PREPARED:** Feb 1, 2010  
**BILL AMENDED:** Jan 28, 2010

**SUBJECT:** Pensions.

**FIRST AUTHOR:** Rep. Niezgodski  
**FIRST SPONSOR:**

**BILL STATUS:** 2<sup>nd</sup> Reading - 1<sup>st</sup> House

**FUNDS AFFECTED:** X      **GENERAL**  
                                  X      **DEDICATED**  
  **FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** (Amended) This bill provides for a cost-of-living adjustment (COLA) and a one-time 13<sup>th</sup> check for Public Employees' Retirement Fund (PERF) and Teachers' Retirement Fund (TRF) members, survivors, and beneficiaries.

The bill also provides for a one-time 13<sup>th</sup> check for employee beneficiaries of the State Police 1987 Benefit System who retired or were disabled after June 30, 1987, and before July 2, 2008, and were entitled to receive a monthly benefit as of June 1, 2010. The bill provides that the amount of the 13<sup>th</sup> check equals 1% of the maximum basic annual pension amount payable to a retired State Police employee in the grade of trooper who has completed 25 years of service as of July 1, 2009.

**Effective Date:** (Amended) Upon passage; July 1, 2010.

**Explanation of State Expenditures:** (Revised) This bill provides a 1% COLA for those PERF and TRF members who retired or were disabled before December 1, 2009, payable after June 30, 2010. The bill also provides a one-time 13<sup>th</sup> check to eligible PERF and TRF members payable not later than October 1, 2010, and to members of the State Police 1987 Benefit System, payable not later than July 1, 2010. This fiscal note presents the impact of these provisions (1) on state personnel costs and (2) on the affected pension funds.

(Revised) *Impact on the State Personnel Costs-*

The bill provides for (1) a 1% COLA and (2) a 13<sup>th</sup> check. Current statute has no provision for either a COLA or 13<sup>th</sup> check in FY 2011. Consequently, the impact to the state of the benefit adjustment provided in this bill over what is in current statute, is the difference between the cost of providing these benefit increases and the cost to the state of providing no COLA and no 13<sup>th</sup> check. (The state is impacted because it is an employer

of PERF members and State Police 1987 Benefit System members, and the payor of benefits under the TRF Pre-1996 Account.)

The additional benefit provisions provided in this bill will result in an increase in the unfunded accrued pension liability and an increase in the annual funding requirement to the state as an employer and payor of pension benefits beginning in FY 2011 and years thereafter. The costs to the state of providing the COLA and 13<sup>th</sup> checks are shown in the following table delineated by the affected pension funds.

<b>Impact on the State from Benefit Increases in PERF, TRF Pre-1996 Account, and State Police 1987 Plan.</b>						
	PERF Provisions		TRF Provisions (Pre-1996)		State Police	Total Impact
	COLA	13 <sup>th</sup> Check	COLA	13 <sup>th</sup> Check	13 <sup>th</sup> Check	
Change in Unfunded Accrued Liability	\$13.4 M	\$7.56 M	\$67.2 M	\$15.3 M	\$126,500	\$103.59 M
Change in Annual Funding	\$1.030 M	\$0.580 M	\$6.7 M		\$9,200	\$8.31 M
Change in Annual Funding as % of Pay	0.064%	0.034%			0.013%	

The table above represents the cost of providing the benefit adjustments provided in this bill and do not directly translate into changes in contribution rates. The state and employers make contributions to the pension funds, and the pension funds makes the benefit payments to fund members.

The PERF fund is actuarially funded by employer contributions and earnings from fund assets. The level of PERF employer contributions is established by the PERF Board. The funds affected for the annual funding for PERF contributions across all state agencies are the state General Fund (about 55% of the total) and various dedicated funds (about 45% of the total).

The TRF Pre-1996 Account is not actuarially funded, but rather is funded on a pay-as-you-go basis by state General Fund appropriations, investment earnings of fund assets, and, if necessary, additional amounts obtained from the Pension Stabilization Fund. For the TRF Pre-1996 Account contributions, the state General Fund contribution level is specified in statute.

The State Police 1987 Benefit System is funded by appropriations, half from the state General Fund and half from the Motor Vehicle Highway Account. (The funded status would remain at 78.5%.)

[Estimates for the impacts are based on the actuarial funding methods and assumptions used in the July 1, 2009, valuations.]

#### Impacts on the Pension Funds-

(Revised) *PERF Fund Impact-* PERF funding consists of employer contributions, both state and local, and earnings from fund assets. Although a COLA for 2011 is not provided in current statute, employer contribution rates are established assuming that a 1.5% COLA will be provided to members each year. However, this bill provides only a 1.0% COLA. Consequently, benefit payments to members from the PERF fund will be reduced from the level that was assumed when establishing the contribution rates, which would result in a *savings* to the PERF fund and a reduction in the unfunded liability and annual funding requirement. However, the bill also provides for a 13<sup>th</sup> check, which was not in the actuarial assumptions and which nearly offsets the fund savings from the COLA provision.

Impact on the PERF Fund					
	State		Local		Total Impact
	COLA	13 <sup>th</sup> Check	COLA	13 <sup>th</sup> Check	
Change in Unfunded Accrued Liability	(\$7.90 M)	\$7.56 M	(\$11.79 M)	\$11.28 M	(\$0.86 M)
Change in Annual Funding	(\$0.610 M)	\$0.580 M	(\$0.910 M)	\$0.87 M	(\$0.07 M)
Change in Annual Funding as % of Pay	(0.036%)	0.034%	(0.030%)	0.028%	(0.001%)

The funded status for PERF would remain at 93.1%.

(Revised) *TRF Fund Impact*- The TRF Fund consists of two accounts: the Pre-1996 Account and the 1996 Account.

*Pre-1996 Account*- The Pre-1996 Account receives state General Fund appropriations, the level of which are specified in statute, and investment earnings of fund assets. If the annual appropriation and investment earnings are insufficient to cover benefit payments, additional amounts may be obtained from the Pension Stabilization Fund. Since the Pre-1996 Account is funded on a pay-as-you-go basis, the annual cost to the fund of a COLA is the increase in the amount of benefits paid each year. The initial increase in benefits paid is expected to be \$6.7 M in FY 2011, gradually decreasing in future years due to mortality.

*1996 Account*- The 1996 Account is prefunded, with an actuarially calculated contribution equal to the benefit accrual cost for the year (the plan's normal cost) plus a 30-year amortization of the unfunded accrued benefit liability. Account revenues include annual contributions from school corporations at a percentage of payroll, currently 7.50%, and investment earnings on fund assets.

The employer contribution rates are established based on an actuarial assumption that members will annually be provided a 1.5% COLA. Because the COLA provided in the bill is 1.0%, which is less than the actuarial assumption, the proposal has no impact on the plan's normal cost and it decreases the unfunded benefit liability and the required employer contribution from what it would have been at the higher assumed COLA.

Impact on the TRF Fund					
	Pre-1996 Account		1996 Account		Total Impact
	COLA	13 <sup>th</sup> Check	COLA	13 <sup>th</sup> Check	
Change in Unfunded Accrued Liability *	(\$33.8 M)	\$15.3 M	(\$1.8 M)	\$0.70 M	(\$19.6 M)
Change in Annual Benefits or Funding	\$6.7 M		\$0.30 M	\$0.05 M	\$7.05 M
Change in Annual Funding as % of Pay			0.01%	< 0.01%	
* The unfunded accrued liability amounts represent the present value of future benefits for the COLA provision and a one-time payment in FY 2011 to members for the 13 <sup>th</sup> check provision.					

(Revised) *State Police 1987 Benefit System*-

<b>Impact on the State Police 1987 Benefit System</b>	
	<b>Impact 13<sup>th</sup> Check</b>
Change in Unfunded Accrued Liability	\$126,500
Change in Annual Funding	\$9,200
Change in Annual Funding as % of Pay	0.013%

The State Police 1987 Benefit System is funded by appropriations, half from the state General Fund and half from the Motor Vehicle Highway Account. (The funded status would remain at 78.5%.) It is estimated that there would be 470 employee beneficiaries eligible for the 13<sup>th</sup> check and that the 13<sup>th</sup> check would equal approximately \$269 per beneficiary.

### **Explanation of State Revenues:**

**Explanation of Local Expenditures:** (Revised) *Impact on the Local Units as Employers:* The bill provides a 1.0% COLA for members, survivors, and beneficiaries of PERF payable after June 30, 2010, and a 13<sup>th</sup> check. Current statute has no provision for a COLA in CY 2010. Consequently, the cost of the 2010 adjustment provided in this bill, over what is in current statute, is provided in the following table. (The impact on the PERF and TRF Funds are described in *Explanation of State Expenditures*, above.)

<b>Impact on Local Units as Employers</b>			
	<b>PERF Provisions</b>		<b>Total Impact</b>
	<b>COLA</b>	<b>13<sup>th</sup> Check</b>	
Change in Unfunded Accrued Liability	\$19.91 M	\$11.28 M	\$31.19 M
Change in Annual Funding	\$1.54 M *	\$0.87 M	\$2.41 M
Change in Annual Funding as % of Pay	0.05%	0.028%	0.078%
* The additional funding requirement is \$770,000 for CY 2010 and \$1.54 M in years thereafter.			

(Revised) *Impact on School Corporations as Employers:* The bill also provides a 1.0% COLA for members, survivors, and beneficiaries of TRF payable after June 30, 2010, and a 13<sup>th</sup> check. Current statute has no provision for a COLA in CY 2010. Consequently, the cost of the 2010 adjustment provided in this bill, over what is in current statute, is provided in the following table.

<b>Impact on School Corporations as Employers (TRF 1996 Account) *</b>			
	<b>TRF Provisions</b>		<b>Total Impact</b>
	<b>COLA</b>	<b>13<sup>th</sup> Check</b>	
Change in Unfunded Accrued Liability	\$3.70 M	\$0.70 M	\$4.40 M
Change in Annual Funding	\$0.30 M	\$0.05 M	\$0.35 M
Change in Annual Funding as % of Pay	0.1%	< 0.01%	0.1%
* Noncertificated employees of school corporations are members of PERF and for which the impact would be included in the table for local units.			

**Explanation of Local Revenues:**

**State Agencies Affected:** All

**Local Agencies Affected:** Those units with members in PERF and school corporations with members in PERF and TRF.

**Information Sources:** Doug Todd of McCready & Keene, Inc., actuaries for PERF, 317-576-1508; John Dowell, Nyhart Group, actuaries for TRF, 317-845-3580.

**Fiscal Analyst:** James Sperlik, 317-232-9866.

**DEFINITIONS**

Cost-of-Living Adjustment- An across-the-board increase (or decrease) in wages or pension benefits according to the rise (or fall) in the cost of living as measured by some index, often the Consumer Price Index (CPI).

Present Value– The present value (sometimes called actuarial present value) of an amount or series of amounts payable or receivable in the future is their current worth after discounting each such amount at an assumed rate of interest and adjusting for the probability of its payment or receipt.

Thirteenth Check– A thirteenth check is an annual supplemental retirement allowance arising from earnings on the investments of a system in excess of those determined as needed for other purposes. Unlike a cost-of-living adjustment, the amount of this supplemental retirement allowance does not increase the pension base.

Unfunded Actuarial Liability -The actuarial liability, sometimes called the unfunded liability, of a retirement system at any time is the excess of its actuarial liability at that time over the value of its cash and investments.